

## LENDERS PRICE BASED ON CREDIT RATING

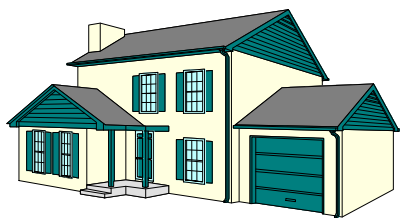
Today more than ever, borrowers are being graded on a letter scale based on their credit history. A borrower with "A" credit will receive a lower interest rate than that of a buyer or refinancer with a blemish or two on their credit report.

If you qualify for an "A" loan, you will get a very good rate and if you qualify for an "A-" or "B" loan, you will pay a little more. You can find this in all types of lending; auto loans, credit cards as well as mortgage loans.

This is called "risk-based pricing," and it means the borrowers with the best credit will get the lowest finance costs. Buyers and refinancers with blemishes on their credit reports still may get loans, but maybe at a percentage point or more higher than the consumer with spotless credit.

## MORTGAGE LOANS

The new standard adds a new wrinkle to many consumers looking to take advantage of some of the best mortgage rates. Along with providing home financing for a wider range of borrowers, lenders say, risk-based programs will save many consumers money. In the past, if you didn't qualify for a conventional mortgage, the



lender was not willing to make the loan and you had to go to a finance company. The rates charged these types of borrowers by finance companies were excessive in many cases, sometimes as high as 21%.

## RISK-BASED LENDING

The system works like this:

When customers go into the borrower's office to buy or refinance a home, their names and addresses are put through a sophisticated computer program that shows their credit history. The document shows when customers opened their credit card accounts, school loans, utility payments, and automobile loans.

The credit history also informs the lender how many times a customer has been late making payments; how much credit the customer has remaining on credit cards; and whether the customer ever closed an account. Based on the information obtained, the customer's report is given a score, probably between 400 and 825. Any score of more than 715 usually is an A. The lower the score, the higher the risk for the lender. Scores under 620 often result in the lender not wanting to take the risk.

The lender usually obtains a credit history from three different agencies. The high and low scores are thrown out and the middle score is used to determine the customer's grade. Some lenders worry that risk-based lending will price marginal borrowers out of the market.

Borrowers are encouraged to access their own credit history before buying or refinancing their home. You can obtain a copy of your credit report by calling or writing one or all of the following credit bureaus:

Experian <http://www.experian.com>  
P.O. Box 949  
Allen, TX 75013-0949  
(888) 397-3742  
Free

Equifax Credit Information Services,  
Inc. <http://www.equifax.com>  
P.O. Box 740241  
Atlanta, GA 30374-0241  
(800) 685-1111  
\$8 Fee

Trans Union Corporation  
<http://www.transunion.com>  
Trans Union Consumer Relations  
760 West Sproul Road, P.O. Box 390  
Springfield, PA 19064-0390  
(800) 916-8800  
\$8 Fee

A consumer reporting agency will send a free report once in any 12-month period **upon request of a consumer** if the consumer is unemployed and intends to apply for employment in the 60-day period beginning on the date on which the certification is made, is a recipient of public welfare assistance, or has reason to believe that the file on the consumer at the agency contains inaccurate information due to fraud.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems  
Applying for Credit  
At Home Shopping Rights  
Bankruptcy Facts  
Buried in Debt  
Car Financing Scams  
Charge Card Fraud  
Choosing A Credit Card  
Co-Signing  
Credit and Divorce  
Credit and Older Consumers  
Deep in Debt?  
Equal Credit Opportunity  
Fair Credit Reporting  
Fair Debt Collection  
Gold Cards  
Hang up on Fraud  
High Rate Mortgages  
Home Equity Credit Lines  
How to Avoid Bankruptcy  
Indiana Uniform Consumer Credit Code  
Look Before you Lease  
Mortgage Loans  
Repossession  
Reverse Mortgage Loans  
Rule of 78s – What is it?  
Scoring for Credit  
Shopping for Credit  
Using Credit Cards  
Variable Rate Credit  
What is a Budget?  
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.



, Indiana 46204

# CREDIT RATINGS AFFECT YOUR COST OF CREDIT



## DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division  
402 West Washington Street, Room W066  
Indianapolis, Indiana 46204  
317-232-3955, 1-800-382-4880  
Web Site <http://www.dfi.state.in.us>

